

financial & private sector development

**Regional integration: some practical lessons and considerations for EAC**

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**Nairobi , May 4th, 2007**



THE WORLD BANK



# Scope

- 1. Why regional integration is a must.**
- 2. Practical lessons for the road ahead..**
  - a) NOREX/OMX**
  - b) Eurobond market**
- 3. One final consideration**

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# 1. Why regional integration is a must..

## a. The benefits:

- More efficient, more liquid, and broader securities markets
  - Innovative financial products
  - Cheaper financing for companies
  - Higher returns on investments
  - Enhanced risk-return frontiers
- ➔ improved macroeconomic development

# 1. Why regional integration is a must..

## b. The costs:

- Protected industries and companies will lose out
  - Transition costs will be born by some
  - Unanticipated regulatory costs could be large
  - Unanticipated protectionism
- ➔ cost/benefit analysis will render positive

# 1. Why regional integration is a must..

## c. barriers:

- Currency convertibility
- Restrictions to capital flows
- Multiple regulators
- Legislative and regulatory impediments
- Taxation and..
- Accounting differences
- History and culture

## 2. Some practical lessons for the road ahead..

- **Policy makers attitude:**
  - **Should support the regional vision but enable the private sector to lead the implementation**
  - **There are two interesting examples of that process**
    - ➔ **The unification of the exchanges in the Nordic countries (Norex and OMX)**
    - ➔ **And the development of the Eurobond market**

## 2. Some practical lessons for the road ahead..

Norex is the Nordic exchange alliance (Denmark, Sweden, Finland, Norway, Iceland, +) :

- Joint trading system and ATS center
- Common Rule book (members, trading, listing etc.)
- Easy to get joint memberships
- No dual listing competition
- Joint cross country marketing
- Joint international marketing

Source: presentation by Tyge Vorstrup Rasmussen in " Making Finance work for Africa" in March 2007 (Nairobi)

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## 2. Some practical lessons for the road ahead..

### Individual country gains from Norex :

- New and cheaper Trading system
- Upgrading of rules and regulations
- Many new members (Nordic, international)
- Push to alternative market place developments for smaller companies
- Push to derivative market development
- New trading habits
- More turnover, better liquidity and tighter spreads

Source: presentation by Tyge Vorstrup Rasmussen in " Making Finance work for Africa" in March 2007 (Nairobi)

## 2. Some practical lessons for the road ahead..

### Other lessons from Norex :

- Co-operation became so close that merger of exchanges became the obvious outcome (OMX)
- Still local presence (legal exchange entities) in all the countries for a long time ahead
- All countries must be committed – no free riders
- Single currency is not necessary – but wanted
- Free capital movements must be implemented
- Foreign investments must be allowed for all large investors

Source: presentation by Tyge Vorstrup Rasmussen in " Making Finance work for Africa" in March 2007 (Nairobi)

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## 2. Some practical lessons for the road ahead..

### Other lessons from Norex (cont.):

- Dual listings is not the best solution
- Make remote memberships easy
  - Same broker system to all markets
  - Common Rulebook
  - Easy approval procedures
- Share Systems, IT-Centers and communication
  - Lower “central costs”
  - Cheaper member access cross border

Source: presentation by Tyge Vorstrup Rasmussen in “ Making Finance work for Africa” in March 2007 (Nairobi)

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## 2. Some practical lessons for the road ahead..

### The Euro bond market:

- It's a an excellent example of globalization in CM
- It's a bond issued internationally (across borders)
- distributed by an international syndicate of banks
- Listed in an exchange (e.g LSE and Luxemburg) for practical reasons but ...
- With no central authority responsible for

## 2. Some practical lessons for the road ahead..

### The Euro bond market:

- ICMA, a recognize SRO, has played a key role on the establishment of the uniforms practices and code of conduct
- Trading has been OTC and dealer driven, with little e-trading penetration
- The clearing and depository of the bonds centralized in Euro clear and Clearstream
- Transparency has been market driven where information vendors such as Bloomberg have been fundamental

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## 2. Some practical lessons for the road ahead..

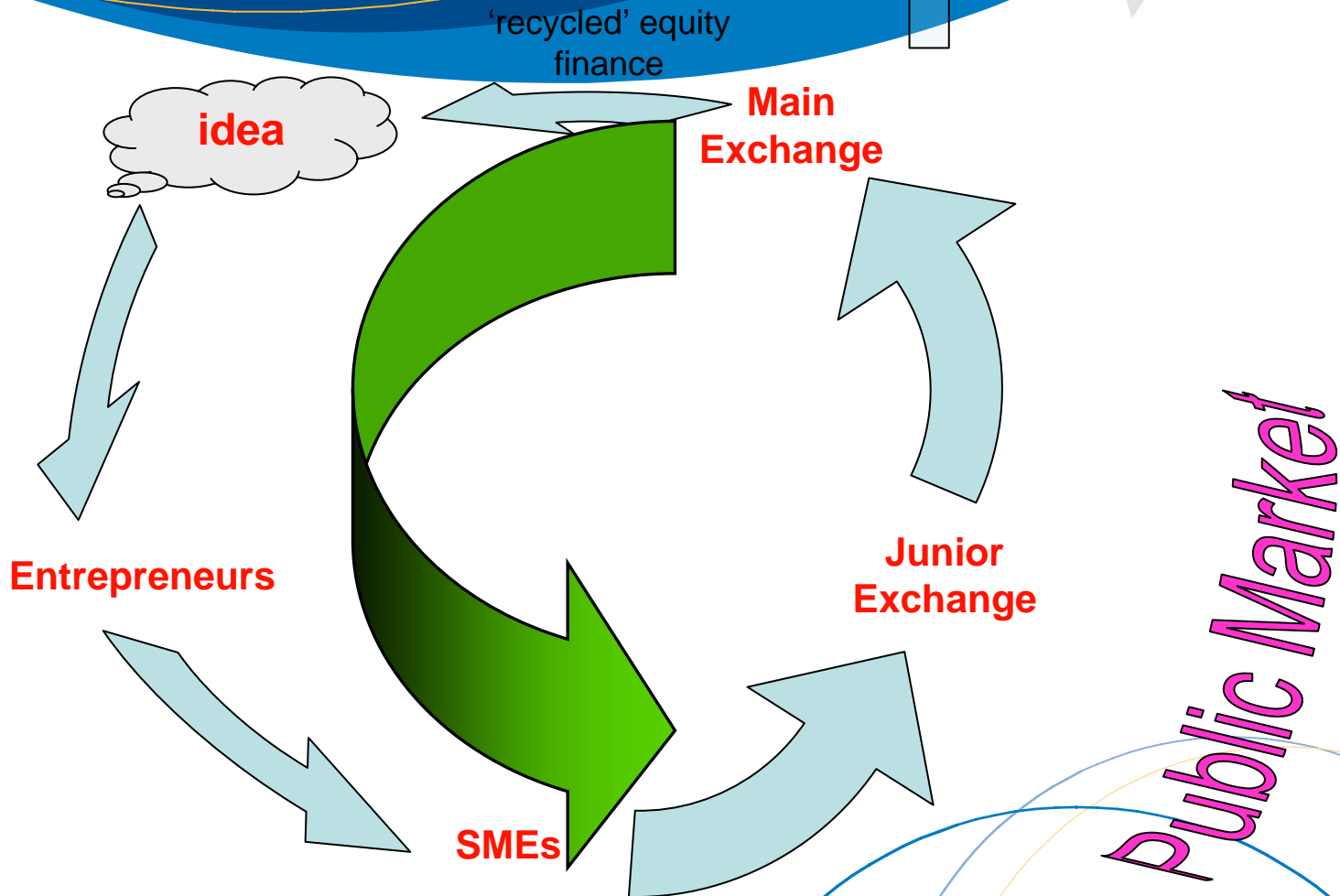
### The Euro bond market: "key drivers of the success"

- **The growth and development have been driven by the professional segment of the market:**
  - The demand has been based on the growth and professionalism of the institutional investors.
  - The intermediaries have speed up the process by committing capital to provide liquidity and distribution capacity.
- **The regulatory framework has been flexible and rather light :**
  - To facilitate growth and innovation.
  - It relies on the professionalism of the players (code of business, internal controls, risk management, etc.).
  - The supervision has been more of an SR exercise
  - The regulator(s) has been more on the side as It assumes that retail buyer is not an important player..
- **But the need to compete with a larger market was fundamental**

### 3. One final consideration...

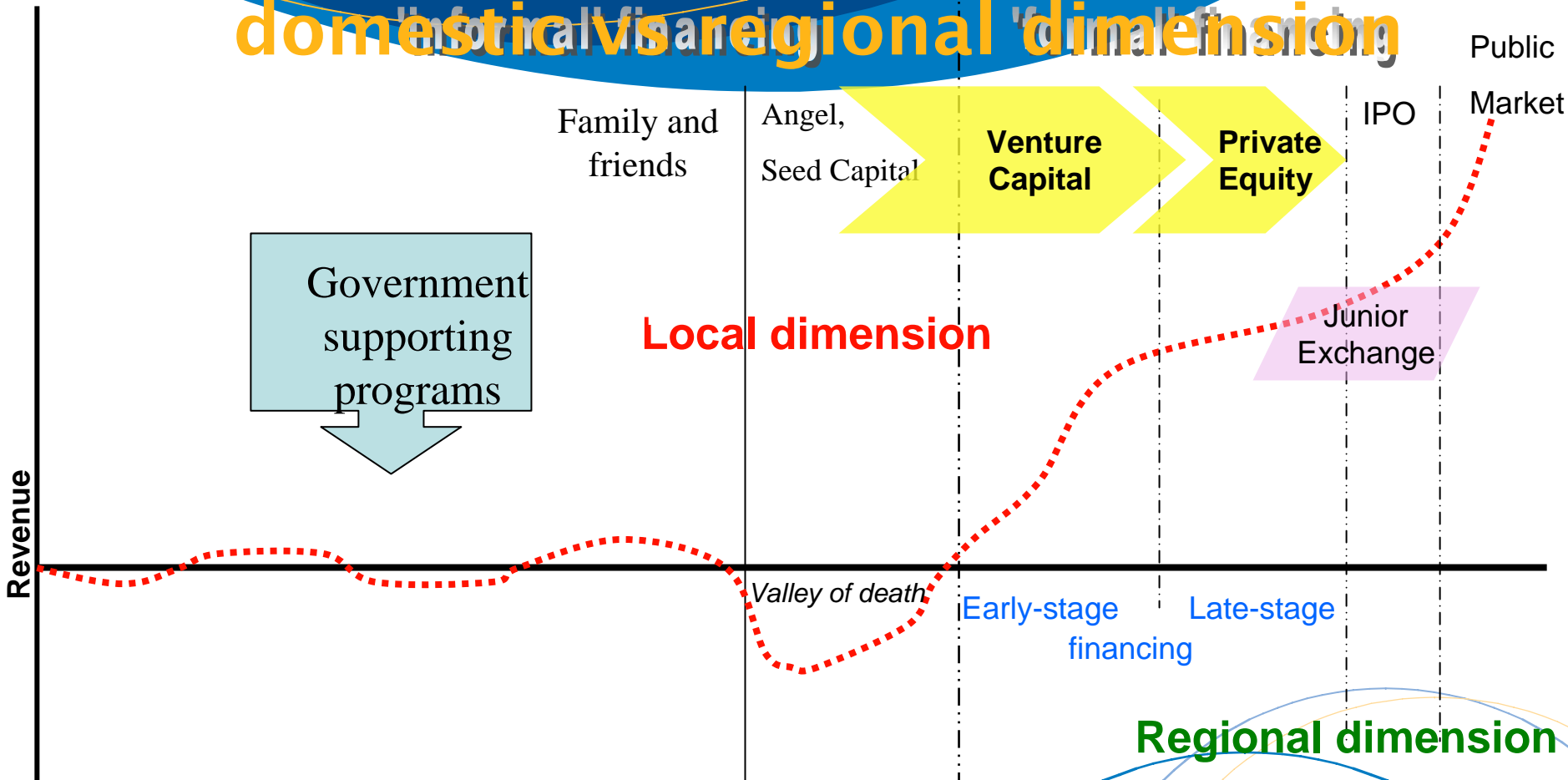
- **Understanding the viability of the market instruments needed at the different stages of the firm growth cycle could be useful on this debate:**
  - **Local markets and local investors will continue to be fundamental in early stage inputs**
  - **Regional and global markets will play a larger role on later stages**
  - **Let me refer to one example: “the risk capital cycle for high growth firms”**

# Risk Capital Ecosystem: *ideal cycle*



# Risk capital cycle for high growth firm's :

## domestic vs regional dimension



# THANKS

